

GLENDALE COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd Extraordinary Session,
and Chapter 1118, Statutes of 1987

July 1, 2002, through June 30, 2005



JOHN CHIANG
California State Controller

June 2007



JOHN CHIANG
California State Controller

June 29, 2007

Audre Levy, Ed.D.
Superintendent/President
Glendale Community College District
1500 North Verdugo Road
Glendale, CA 91208

Dear Dr. Levy:

The State Controller's Office audited the costs claimed by Glendale Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2005.

The district claimed \$1,098,381 (\$1,099,381 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$1,006,178 is allowable and \$92,203 is unallowable. The unallowable costs occurred because the district claimed ineligible costs and understated offsetting revenues. The State paid the district \$338,488. Allowable costs claimed exceed the amount paid by \$667,690.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/jj:vb

cc: Ron Nakasone, Controller
Glendale Community College District
Marty Rubio, Specialist
Fiscal Accountability Section
California Community Colleges Chancellor's Office
Jeannie Oropeza, Program Budget Manager
Education Systems Unit
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Glendale Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2005. The last day of fieldwork was January 16, 2007.

The district claimed \$1,098,381 (\$1,099,381 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$1,006,178 is allowable and \$92,203 is unallowable. The unallowable costs occurred because the district claimed ineligible costs and understated offsetting revenue. The State paid the district \$338,488. Allowable costs claimed exceed the amount paid by \$667,690.

Background

Chapter 1, Statutes of 1984, 2nd Extraordinary Session (E.S.) repealed *Education Code* Section 72246 which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health service fee as specified.

Chapter 1118, Statutes of 1987, amended *Education Code* Section 72246 (subsequently renumbered as Section 76355 by Chapter 8, Statutes of 1993). The law requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 1, Statutes of 1984, 2nd Extraordinary Session imposed a "new program" upon community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applied to all community college districts that levied a health service fee in FY 1983-84.

On April 27, 1989, the COSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, requiring them to maintain that level in FY 1987-88 and each fiscal year thereafter.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on August 27, 1987, and amended it on May 25, 1989. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs to assist school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2002, through June 30, 2005.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Glendale Community College District claimed \$1,098,381 (\$1,099,381 less a \$1,000 penalty for filing a late claim) for costs of the Health Fee Elimination Program. Our audit disclosed that \$1,006,178 is allowable and \$92,203 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State paid the district \$338,488. Our audit disclosed that \$307,686 is allowable. The State will offset \$30,802 from other mandated program payments due to the district. Alternatively, the district may remit this amount to the State.

For the FY 2003-04 claim, the State paid the district \$0. Our audit disclosed that \$330,210 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$330,210, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the district \$0. Our audit disclosed that \$368,282 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$368,282, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on April 25, 2007. Ron Nakasone, Controller, responded by letter dated May 8, 2007 (Attachment), agreeing with the audit results except for Finding 1. Based on our review of other corroborating evidence the district's controller provided, we reduced the findings by \$44,638, from \$136,841 to \$92,203. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of Glendale Community College District, the California Department of Education, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2002, through June 30, 2005

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Health services costs:				
Salaries and benefits	\$ 403,720	\$ 403,720	\$ —	
Services and supplies	72,845	60,016	(12,829)	Finding 1
Indirect costs	149,057	150,175	1,118	Finding 2
Total health services costs	625,622	613,911	(11,711)	
Less authorized health fees	(283,629)	(296,187)	(12,558)	Finding 3
Subtotal	341,993	317,724	(24,269)	
Less offsetting savings/reimbursements	(2,505)	(9,038)	(6,533)	Finding 4
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 338,488</u>	307,686	<u>\$ (30,802)</u>	
Less amount paid by the State		(338,488)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (30,802)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Health services costs:				
Salaries and benefits	\$ 397,218	\$ 397,218	\$ —	
Services and supplies	62,555	51,318	(11,237)	Finding 1
Indirect costs	142,122	143,282	1,160	Finding 2
Total health services costs	601,895	591,818	(10,077)	
Less authorized health fees	(247,533)	(259,005)	(11,472)	Finding 3
Subtotal	354,362	332,813	(21,549)	
Less offsetting savings/reimbursements	(2,903)	(2,603)	300	Finding 4
Total program costs	<u>\$ 351,459</u>	330,210	<u>\$ (21,249)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 330,210</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Health services costs:				
Salaries and benefits	\$ 439,594	\$ 439,594	\$ —	
Services and supplies	35,170	49,387	14,217	Finding 1
Indirect costs	197,817	158,981	(38,836)	Finding 2
Total health services costs	672,581	647,962	(24,619)	
Less authorized health fees	(261,446)	(270,957)	(9,511)	Finding 3
Subtotal	411,135	377,005	(34,130)	
Less offsetting savings/reimbursements	(2,701)	(8,723)	(6,022)	Finding 4
Total program costs	<u>\$ 408,434</u>	368,282	<u>\$ (40,152)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 368,282</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Health services costs:				
Salaries and benefits	\$ 1,240,532	\$ 1,240,532	\$ —	
Services and supplies	170,570	160,721	(9,849)	Finding 1
Indirect costs	488,996	452,438	(36,558)	Finding 2
Total health services costs	1,900,098	1,853,691	(46,407)	
Less authorized health fees	(792,608)	(826,149)	(33,541)	Finding 3
Subtotal	1,107,490	1,027,542	(79,948)	
Less offsetting savings/reimbursements	(8,109)	(20,364)	(12,255)	Finding 4
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 1,098,381</u>	1,006,178	<u>\$ (92,203)</u>	
Less amount paid by the State		(338,488)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 667,690</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable student health insurance

The district overstated the student health insurance expense by \$9,849 during the audit period because it included the unallowable cost of athletic insurance. A summary of the audit adjustment follows.

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Audit adjustment	\$ (12,829)	\$ (11,237)	\$ 14,217	\$ (9,849)

Parameters and Guidelines, Section VII, Supporting Data, states that for auditing purposes, all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

Education Code Section 76355(d) states that authorized expenditures for health services shall not include the cost of athletic insurance.

Recommendation

We recommend that the district ensure that all costs claimed are within the scope of *Parameters and Guidelines* for the program.

District's Response

We are in agreement with all findings and adjustments in the report except for Finding 1, Unallowable Student Health Insurance. This finding disallowed \$54,487 of student health insurance costs over the three years because it was claimed that this amount was for athletic insurance. In disallowing costs for this finding, the auditors had to allocate our insurance premium between general student insurance and athletic insurance and we are not in agreement with the basis that was used.

In a previous audit of this program, the auditors requested student and athletic rates from our insurance carrier, Student Insurance. These were provided to the auditors by an E-Mail from Marie Martinelli dated February 10, 2004 (see Attachment I). When the rates for fiscal year 2004-05 were requested for this audit, Monique Palmieri of Student Insurance stated in an E-Mail dated November 9, 2006 (See Attachment II) that they had erred in their previous communication and that the rates previously provided would not be accurate in allocating costs between students and athletes. In addition, she stated that no rates could be provided for the current years as the AIG underwriters do not share this information.

Because our carrier has stated that these rates cannot be used to allocate costs between students and athletes, we are questioning why the auditors used these rates in disallowing claimed insurance costs. We are also questioning the use of these rates because applying them to our student counts do not result in our annual premium. The auditors applied our student counts to the student rates to determine the cost of the general student premium and assumed the difference between this amount and our total premium was the cost of our athletic insurance. If the reverse was done and the athletic rates were applied to our number of athletes to determine the cost of the athletic insurance and the

difference between this number and our total premium was the cost of student insurance, then the results are very different. If the State Controller's Office is going to use these rates as a basis of determining allowable student insurance costs, we would prefer that a revised athletic rates (adjusted for practice time) be applied to our athlete count and the difference between this number and the total premium be used as our student insurance costs.

SCO's Comment

Upon reviewing other corroborating evidence the district's Controller provided, we concur with his comments. Consequently, based on our analysis, we reduced the finding by \$44,638, from \$54,487 to \$9,849.

FINDING 2— Overstated indirect costs

The district overstated indirect cost by \$36,558 for the audit period.

The district did not apply the federally approved indirect cost methodology consistently, although the approved rate was used correctly. The district understated the indirect costs for the FY 2002-03 and FY 2003-04 because the district did not include all of the salaries and wages in the indirect cost calculation base as instructed in the federal approval letter. For FY 2004-05, the district included employee benefits in the indirect cost calculation base, which is not consistent with the federal approval letter instructions.

A summary of the audit adjustment follows.

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Audit adjustment	\$ 1,118	\$ 1,160	\$ (38,836)	\$ (36,558)

Parameters and Guidelines, Section VII.B.2, Allowable Overhead Cost, states that indirect costs may be claimed in the manner described by the State Controller in his claiming instructions. The SCO's claiming instructions (revised September 2001) state that districts must obtain federal approval for an ICRP prepared in accordance with Office of Management and Budget (OMB) Circular A-21.

Recommendation

We recommend that the district apply the same calculation base consistently from year to year in compliance with the federally approved letter instructions.

District's Response

The district agrees with this finding.

**FINDING 3—
Understated
authorized health
service fees**

The district understated authorized health services fees by \$33,541 for the audit period.

The district understated the student enrollment counts reported on the reimbursement claims. This resulted in understatements of authorized health fee revenue offsets reported in the reimbursement claims. During our reconciliations of the health fee revenues and student enrollment counts claimed, we found that student counts claimed were less than the student counts per the admissions office's records. In addition we found that a small number of noncredit students were also omitted.

The understated authorized health fee revenues are calculated as follows.

	Semester				
	Fall	Spring	Summer	Winter	Total
<u>Fiscal Year 2002-03</u>					
Number of students net of allowable health fee exemptions:					
Per claim	9,663	9,016	3,908	2,701	
Per audit	(10,018)	(9,277)	(4,215)	(2,968)	
Total variance	(355)	(261)	(307)	(267)	
Authorized student health fee	× \$12	× \$12	× \$9	× \$9	
Audit adjustment, FY 2002-03	<u>\$ (4,260)</u>	<u>\$ (3,132)</u>	<u>\$ (2,763)</u>	<u>\$ (2,403)</u>	\$ (12,558)
<u>Fiscal Year 2003-04</u>					
Number of students net of allowable health fee exemptions:					
Per claim	8,184	7,847	2,305	3,824	
Per audit	(8,444)	(8,080)	(4,063)	(2,488)	
Total variance	(260)	(233)	(1,758)	1,336	
Authorized student health fee	× \$12	× \$12	× \$10	× \$9	
Audit adjustment, FY 2003-04	<u>\$ (3,120)</u>	<u>\$ (2,796)</u>	<u>\$ (17,580)</u>	<u>\$ 12,024</u>	(11,472)
<u>Fiscal Year 2004-05</u>					
Number of students net of allowable health fee exemptions:					
Per claim	7,907	7,345	4,098	2,219	
Per audit	(8,142)	(7,509)	(4,312)	(2,416)	
Total variance	(235)	(164)	(214)	(197)	
Authorized student health fee	× \$13	× \$13	× \$11	× \$10	
Audit adjustment, FY 2004-05	<u>\$ (3,055)</u>	<u>\$ (2,132)</u>	<u>\$ (2,354)</u>	<u>\$ (1,970)</u>	(9,511)
Total audit adjustment					\$ (33,541)

Parameters and Guidelines states that health fees authorized by the *Education Code* must be deducted from costs claimed. *Education Code* Section 76355(c) states that health fees are authorized for all students except those who: (1) depend exclusively on prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need.

Government Code Section 17514 states that “costs mandated by the state” means any increased costs a school district is required to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, *Government Code* Section 17556 states that COSM shall not find costs total mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

Recommendation

We recommend that the district deduct authorized health service fees from allowable health service program costs on the mandate claim. The district should ensure that only those students who meet the requirements of *Education Code* Section 76355(e) are exempt when the district calculates authorized student health fees for the Health Fee Elimination Program.

District's Response

The district agrees with this finding.

**FINDING 4—
Understated offsetting
revenues**

The district understated offsetting miscellaneous revenues by \$12,255 for the audit period.

We found that the district understated revenue offsets in its filed claims for FY 2002-03 and FY 2004-05. These revenues mainly consisted of collected fees that were written off as uncollectible in prior periods. Our audit also found that the district overstated the revenue offset in FY 2003-04 by \$300. A summary of the audit adjustment to revenue offsets is as follows.

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Audit adjustment	\$ (6,533)	\$ 300	\$ (6,022)	\$ (12,255)

Parameters and Guidelines, Section VIII, Offsetting Savings and Other Reimbursement, states that any offsetting savings the claimants experience as a direct result of this statute must be deducted from the costs claimed. It further states that reimbursement for this mandate received from any source (e.g., federal, state, etc.) shall be identified and deducted from this claim.

Recommendation

We recommend that the district offset revenues from all sources against claimed costs.

District's Response

The district agrees with this finding.

**Attachment—
District's Response to
Draft Audit Report**



May 8, 2007

Mr. Jim L. Spano
Chief, Compliance Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Dr. Audre Levy
Superintendent/President

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RE: Health Fee Elimination Mandated Cost Claim Draft Audit for Period of
July 1, 2002 through June 30, 2005

Dear Mr. Spano:

We have received the attached draft audit report for our Health Fee Elimination Mandated Cost Claims for the period of July 1, 2002 through June 30, 2005. We are in agreement with all findings and adjustments in the report except for Finding 1, Unallowable Student Health Insurance. This finding disallowed \$54,487 of student health insurance costs over the three years because it was claimed that this amount was for athletic insurance. In disallowing costs for this finding, the auditors had to allocate our insurance premium between general student insurance and athletic insurance and we are not in agreement with the basis that was used.

In a previous audit of this program, the auditors requested student and athletic rates from our insurance carrier, Student Insurance. These were provided to the auditors by an E-Mail from Marie Martinelli dated February 10, 2004 (see Attachment I). When the rates for fiscal year 2004-05 were requested for this audit, Monique Palmieri of Student Insurance stated in an E-Mail dated November 9, 2006 (See Attachment II) that they had erred in their previous communication and that the rates previously provided would not be accurate in allocating costs between students and athletes. In addition, she stated that no rates could be provided for the current years as the AIG underwriters do not share this information.

Because our carrier has stated that these rates cannot be used to allocate costs between students and athletes, we are questioning why the auditors used these rates in disallowing claimed insurance costs. We are also questioning the use of these rates because applying them to our student counts do not result in our annual premium. The auditors applied our student counts to the student rates to determine the cost of the general student premium and assumed the difference between this amount and our total premium was the cost of our athletic insurance. If the reverse was done and the athletic rates were applied to our number of athletes to determine the cost of the athletic insurance and the difference between this number and our total premium was the cost of student insurance, then the



Mr. Jim L Spano
May 8, 2007
Page 2

results are very different. If the State Controller's Office is going to use these rates as a basis of determining allowable student insurance costs, we would prefer that a revised athletic rate (adjusted for practice time) be applied to our athlete count and the difference between this number and the total premium be used as our student insurance cost.

Please call me at (818) 240-1000 extension 5210 if you have any questions or need additional information. Thank you for your consideration in this matter.

Sincerely,

A handwritten signature in blue ink that reads "Ron Nakasone". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ron Nakasone
Controller

Enclosure

Cc: L. Serot

Allocation of Student Insurance Premium to General Students and Athletes
Fiscal Years 2002-03, 2003-04, and 2004-05

	2002-03	2003-04	2004-05	Total
Number of Athletes	330	330	330	
Athletic Insurance Rate	113.20	108.00	108.00	
Athletic Premium	37,356.00	35,640.00	35,640.00	108,636.00
Total Annual Premium	77,977.00	73,189.00	75,347.00	226,513.00
General Student Premium	40,621.00	37,549.00	39,707.00	117,877.00
Student Catastrophic Premium	1,438.00	1,510.00	1,510.00	4,458.00
Total Student Premium	42,059.00	39,059.00	41,217.00	122,335.00
Total Student Premium Claimed	54,888.00	50,296.00	27,000.00	132,184.00
Adjusted Cost	(12,829.00)	(11,237.00)	14,217.00	(9,849.00)

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>